CORPORATE GOVERNANCE IN ITALY

SECTION 3

OWNERSHIP STRUCTURE AND TURNAROUND PROCESSES: EVIDENCES FROM ITALIAN LISTED COMPANIES

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Abstract

The aim of this research is to investigate the relationship between ownership structures and turnaround processes in the Italian context. In fact, with the exception of the analysis of individual business cases - relating to incidents of fraud, bankruptcy and failure to rehabilitate the business, it does not seem to have been made, at the time, specific theoretical and empirical studies on the relationship between ownership structure and processes turnaround / crisis in Italian listed companies, in which the reference model is the family business, even in large companies. This research does not extend the results obtained from studies conducted in different contexts outright to Italian companies, but considers the peculiarities of the Italian model of corporate governance, characterized by concentrated ownership structure, by the low proportion of banks and institutional investors and the conflict of interests between shareholders control and minority shareholders.

Keywords: Ownership Structure, Ownership Concentration, Institutional Investors, Turnaround Processes, Listed Company, Italy
Jel Classification: M48, G30, G32, G34, G38

1. INTRODUCTION

The contribution offered by the governance structures to the processes of company development has been the subject of study and examination on the part of scholars in economic, legal and social disciplines, as well as professional bodies.

The complex managerial process which reaches its apex in governance, the orientation of the behavior of the entire company, may, in fact, not allow for the full achievement of company objectives.

This opinion, widely accepted by academics, has guided company research toward the identification of parameters designed to summarize the quality of governance and toward an analysis of the relationship between good governance and improved performance.

The recent events enrich the debate on the subject, highlighting how deficiencies and weaknesses in systems of corporate governance end up fatally compromising the *equilibrium between resources and results on which the possibility to survive and develop depend so as to continuously deliver value*. The precariousness of that equilibrium is, in fact, exacerbated by the current scenarios in which the existence of inadequate governance structures has created a pathological, no longer episodic, situation of instability, reinforcing the idea that there is a need for a process of *continual restructuring* in modern companies. In this context, turnaround processes seem to be systematic recovery processes, which cover the strategic, organizational and cultural aspects of the company, aiming to produce positive and substantial change in performance, and which are necessary when the evolutionary trajectory of the company is not in line with the environment.

The diagram of the succession of events which make up a typical turnaround and which ends when the company begins to create value once again, make the central role played by the governance system evident: efficient corporate governance is designed to create economic value over the mid-long term, balancing various interests and minimizing the risks to which the company is exposed. Therefore, an ideal turnaround process cannot prescind from a contextual reconsideration of the governance structures. The studies previously carried out regarding the relationship between governance structures and turnaround processes have overall been unsystematic and have led to ambiguous results that are dialectic, if not contrasting. The studies that have compared crises/turnarounds and governance structures also have a common background: they are studies primarily focused on the Anglo-Saxon model of capitalism with its peculiarities in terms of highly developed financial markets, pulverised ownership and a high level of contendibility of corporate control.

Aside from the analysis of single corporate cases, no specific empirical analyses seem to have been carried out on the relationship between the single aspects of governance and turnarounds/crises in Italian companies, in which the reference model is that of the family company, even if they are listed companies, and the financial markets do not guarantee efficient mechanisms for allocation of resources. Few studies of a general nature on the relationship between single aspects of governance and performance, on the description of the composition and size of the board and on the relationship between governance choices in general (measure of governance quality) and performance, are carried out in our country (Airoldi et al., 2005; Barontini and Caprio, 2002; Bianchi Martini et al., 2006; Fiori and Tiscini, 2005; Mazzotta, 2007; Melis, 1999).

Hence, it does not seem possible to extend the results obtained by studies carried out in different contexts *tout court* to Italian companies, but it is best to consider the peculiarities of our model of capitalism, characterized by a concentrated ownership structure and in which company conflicts between shareholders and managers, for example, are less intense since the family interest in the survival of the company and its reputation are a convergence factor in the system of incentives for shareholders and managers (Anderson et al., 2002; Tiscini and Di Donato, 2007). In this context, the main conflict of interest becomes that between controlling shareholders and minority shareholders. On the basis of the considerations mentioned thus far, this research project will examine the turnaround processes that concern Italian listed companies, with the goal of examining the possible contributions that they receive from the startup of a concomitant evolution in governance structures.

Therefore, adherence to more virtuous models of ownership structure is seen as a condition for the efficacy of the turnaround process and as an option which aims to increase the possibility for success.

The paper is structured as follows. The next section reviews prior studies on corporate governance, crises and turnaround processes and the relationship between ownership structures and turnaround processes and develops hypotheses alternative. In the third section, a description of the sample and research design. The empirical results are presented and discussed in the fourth section, followed by conclusions and limitations.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Corporate governance

The issues concerning corporate governance, although rediscovered in the last two decades, have always been the focus for scholars, professionals and policy makers in order to identify the best strategic, operational and organizational assets, which are functional to an efficient, effective and sustainable governance of companies (Roe, 1994; Zattoni, 2006).

Over the past 15 years, in particular, the debate on the issues aimed at defining the best corporate governance has become an even greater issue as a result of: a) the rise and sudden decline of the so-called new economy; b) a new wave of corporate scandals; c) the occurrence of a financial crisis first, followed by an economic and industrial crisis, whose effects are still felt today. These three phenomena resulted in a progressive loss of trust in investors and the community in general; in addition, they brought the issue related to the fallibility of sovereign states to the attention of policy makers and financial professionals

The corporate governance operation typically rests on two types of mechanisms: institutional and managerial. The institutional or external mechanisms are the elements of the macro-environment which the company is part of, which cannot be modified (at least not in the short term), such as: the regulatory legal system (la porta et al. 1999); and the market for corporate control (grossman and hart, 1996). The inner or managerial mechanisms, on the other hand, are elements that the company can influence directly and therefore modify, such as the qualitative and quantitative characteristics of the administrative and control apparatus, of ownership structure, of the degree and type of debt.

Ever since the work of Berle and Means in 1932, the literature of economics and corporation has investigated the way in which these mechanisms contribute to influence business performance (Berle and Means 1932; Jensen and Meckling, 1976; McConnell and Servaes 1990). The results of such analysis, given the heterogeneity of the governance variables observed, are not always consistent, if not even contradictory. Considering the problems encountered in the above-mentioned analyses, a second line of studies has tried to overcome the obstacle by using advanced econometric methods (Holderness et al., 1999).

2.2. Crisis and Turnaround processes

In empirical studies, the phenomenon of company crises and turnaround processes have traditionally been observed with an emphasis on the financial structures and focusing their attention mainly on the identification of the causes which determine these crises and on the elaboration of the resulting recovery processes. In these studies, the turnaround was considered to be an *extrema ratio* in cases of serious financial difficulties which call into question the very survival of the company. In the 1980s, in particular, given the attention paid in that period to studies on strategic planning, the literature delved into analyses of the main categories of strategic turnaround processes, identifying models which made it possible to classify these strategies according to a logic of *contingency* (Hambrick and Schecter, 1983; Hofer, 1980). At the same time, guidelines for research were developed which were dedicated to the analysis and definition of the phases of turnaround processes, with particular attention to the actions necessary to ensure the success of the process of change (Robbins and Pearce, 1992; Slatter, 1984).

More recent studies on turnaround phenomena are characterized by a broader perspective than those of the past: no longer circumscribed to mere financial aspects, they are open to the analysis of the strategic implications of these processes, and aim to promote deep changes which make it possible to seize growth opportunities and to attain sustainable competitive advantages in order to create value (Guatri, 1986; Sicca and Izzo, 1995; Slatter, 1984). In any case, in the group of previous studies, organizational change and the concurrent renewal of management were often already named as important factors for the success of a turnaround, and in most cases were present in the combination of conditions that contribute positively to its achievement.

Nevertheless, this tendency has intensified in studies carried out more recently, in which the focus has shifted from the identification of the contents of the turnaround strategies to the observation of the related development processes, with particular emphasis on the organizational dynamics. The resource-based approach, a perspective widely emphasized in studies on the subject, confirms, in particular, the importance of the substitution of the management body and the identification of new leadership which can lead the company, through the phase of normalization of results, to the creation of value (Golinelli, 2004). Additionally, the recent financial scandals have brought the attention of academic and professional studies back to the inefficacy of governance models as the cause of company crises (e.g., Gatti et al., 2007). The subjects of these studies, for the most part, have been single cases of crisis and bankruptcy which have made it possible to identify those aspects of governance and, in particular, those deficiencies in the control system which, both in the Anglo-Saxon system of capitalism and in the Italian system, although with different characteristics, have favoured opportunistic practices and immoral and irresponsible behavior on the part of those who have institutional roles. In particular, attention has been focused on the merely formal independence of the "controllers."

The international literature which has studied the correlation between turnaround processes and governance systems has primarily examined the influence of two distinct groups of variables on turnaround processes: the first related to the structure of the Board of Director's (BOD), of the Top Management Team (TMT) and of the Audit Committee (AC) and the second related to the ownership structure and the shareholders.

In the first group of studies, the research objectives focused on the composition and structure of the various governing bodies, such as the BOD, the TMT and the Audit Committee, examined with reference to the turnaround process (e.g., Lohrke et al., 2004; Mueller and Barker, 1997), or with reference to the onset of a company crisis.

In the second group of studies, the research objectives focused on the influence of the ownership structure and the stakeholders on the turnaround process (e.g., Barclay and Holderness, 1991, Bethel and Liebeskind, 1993; Filatotchev and Toms, 2006; Hill and Snell, 1988; Holderness and Sheehan, 1988; Lai and Sudarsanam, 1997; Mikkelson and Ruback, 1991).

2.3. Ownership structure and turnaround processes

In this study, although we are aware of the importance of considering behavioral and process variables and of the structure and composition of the governance bodies and in leadership, we chose, as will be seen, to take note of and examine changes in ownership structure.

The analysis of ownership structure and the modifications it undergoes during the course of the turnaround process is a first, and also necessary, stage of the investigation aimed overall at changes in the models of corporate governance.

The importance of such variables in turnaround processes has already been opportunely highlighted in the international literature, where study has been made of the interdependence existing between the two variables under consideration:

a) the influence of the ownership structure in the initiation of turnaround processes;

b) the effects of the turnaround cycle in terms of modifications made to the composition of ownership.

Studies on the subject – in the sphere of the conceptual framework delineated by the agency theory – have shown how the pressures applied by large shareholders have often been factors that stimulated the adoption of turnaround processes centering on changes in strategies, organization, and the relationships between managers, owners and stakeholders (Bethel and Liebeskind, 1993; Hill and Snell, 1988; Holderness and Sheehan, 1988; Mikkelson and Ruback, 1991).

These studies, carried out primarily in the sphere of *outsider* systems, have therefore highlighted how a more concentrated ownership structure is a determining element in the activation of the recovery process (Bethel and Liebeskind, 1993; Hill and Snell, 1988). In fact, managers seem to be stimulated to undertake turnaround processes above all in those situations where there are "blockholders" who push them to adopt the actions that make it possible to recover company performance and values. In other words, these researches shows that ownership concentration is associated with more efficient strategies and higher firm performance.

In particular, the results of Bethel and Liebeskind research's (1993) confirm agency theory predictions that blockholders exert a disciplinary effect on managers and show that buy- in by blockholders into diffusely-held firms was a significant determinant of downsizing, reductions in total diversification, and increases in cash payouts in sample firms.

These results are consistent with the previous findings of Hill and Snell (1988) that ownership concentration is associated with more efficient strategies and higher firm performance. In fact, stock concentration had a strong impact upon strategy. Stock concentration was positively related to R&D expenditure, suggesting that stockholders favored an emphasis upon innovation. Stock concentration was negatively related to diversification, suggesting that when stockholders were weak, managerial preferences for diversification dominated. Innovation was shown to be associated with higher profitability, whereas diversification was shown to be associated with lower profitability. The relationship between stock concentration and profitability was mediated by strategy, suggesting that stockholders influence firm performance indirectly through their impact upon strategic choice. Definitely, the study suggest that for stock concentration have two important implications: first, they suggest that stockholder dispersion is important; second, they suggest that when stockholders are dispersed a divergence between stockholder and management interests emerges.

The results of Hill and Snell (1988) and of Bethel and Liebeskind (1993) are also consistent with the evidence presented by Barclay and Holderness (1991), Holderness and Sheehan (1988) and Mikkelson and Ruback (1991) which suggests that blockholder ownership increases firm value by precipitating changes in managerial policy.

Lai and Sudarsanam (1997) – always in the sphere of the conceptual framework delineated by the agency theory –suggest that firms which experience performance decline may choose a variety of alternative methods of restructuring themselves to restore their financial health. However, any restructuring strategy has different, and often conflicting, welfare implications for the different stakeholders in firms. The strategy choices made by managers may benefit one group of stakeholders at the expense of the other groups. However, managerial choices are also constrained by the agency monitoring embodied in the firms. Agency monitoring may be embodied, in the ownership structure perspective, in the power and influence of large block shareholders, and in the rights of lenders.

In other words, the choice of recovery strategies is, therefore, determined by the complex interplay of the ownership structure, corporate governance and lender monitoring of the firms in decline. The results also show the effects of dominance by certain stakeholder groups. While there is agreement among stakeholders on certain strategies there is also evidence of conflict of interests between lenders and managers and between managers and some block shareholders. Consequently, corporate failures can potentially be explained by poor management of stakeholders' interests during decline, resulting in poor selection of turnaround strategies.

Filatochev and Toms (2006) suggest that external financiers may impose constraints on managerial turnaround decisions. When their expected returns and net realizable value of asset sales are less than required rate of return and book value respectively, they will use governance channels to force managers to preserve status quo. Retrenchment actions may be taken when investors expect that assets sales will generate revenue higher than their existing book value. Finally, expected returns from investment at the recovery stage must exceed the required rate of return, or if not, downsizing or complete exit becomes the realized strategy. Also, Filantochev and Toms suggest that the presence of a market for corporate control is likely to promote turnaround opportunities, since it increases the potential realizability of exit values and also offers new financing opportunities during the recovery stage. In other words, with no market for corporate control, there is no reason why book values should not exceed market values or vice versa, since exit values can only reflect the break-up value of the corporation.

2.4. Ownership structure and turnaround processes in Italian context. The alternative hypotheses

Also in Italian context, the bijection of the interdependence between ownership structure and turnaround has been highlighted by studies that have emphasized how, in the period following a turnaround process it is common to see significant changes in ownership in terms of individual shareholders and the capital shares that they own (Belcredi, 1997; Caprio, 2001).

It does not seem superfluous to underline how the analysis of the influence of the so-called "blockholders" on the activation of turnaround processes is justified in the context of the Anglo-Saxon model of capitalism, where, moreover, this type of research originates, considering the relative peculiarities in terms of pulverised and unstable ownership, the high level of contendibility of control and, therefore, significant company conflicts between shareholders and managers.

An examination of a similar hypothesis would not seem to be equally meaningful in a context such as that of Italian listed companies, which tend to have an ownership structure characterised *per se* by the presence of a "dominant" shareholder.

Table 1. Ownership structure in in Italian listed company (end of the year)

Year	*largest shareholder**	*other major shareholders***	*institutional investors'****
1998	48,7	14,7	7,1
2008	45,5	18,3	7,2
2009	45,7	17,0	6,4
2010	46,2	17,7	7,3
2011	46,1	17,6	7,2
2012	46,8	16,9	7,2
2013	46,8	16,5	6,2
2014	46,0	16,5	7,0

*Source: Processing on data Consob * Means of the ordinary shares held by the largest shareholder of all Italian listed companies. **Means of the ordinary shares held by all major shareholders other than the largest. ***Means of the ordinary shares held by all major institutional investors'*

As regards our country, it is necessary to note that, despite the fact that changes in the regulatory environment and in self-regulation have increased the level of investor protection (e.g., the Consolidated Law on Finance of 1998; the reform of company law - Law Decrees no. 5 and no. 6 of 2003; the Savings Law - Law no. 262 of 2005; the Code of Conduct for listed company and so), which introduced disclosure requirements to strengthen the transparency of corporate disclosure, and a series of provisions aimed at increasing the protection of the minority shareholders, there has been no concomitant increase in the level of contendibility of control (Cuomo and Zattoni, 2009), nor a significant reduction of ownership concentration.

Table 2. Control model of Italian listed controlled companies

	controlled companies					
	*majority controlled**		*weakly controlled***		*controlled by shareholders' agreement****	
	no.	*weight*	*no.*	*weight*	*no.*	*weight*
1998	122	*31,2*	33	*40,8*	28	*8,3*
2008	137	*17,4*	55	*48,8*	57	*13,4*
2009	135	*16,5*	50	*38,3*	57	*15,1*
2010	128	*20,6*	53	*43,2*	51	*12,4*
2011	123	*22,7*	55	*45,7*	48	*12,0*
2012	125	*25,5*	49	*44,4*	42	*10,1*
2013	122	*24,1*	48	*40,1*	38	*10,4*
2014	116	*25*	51	*36,8*	32	*9,6*

Source: Processing on data Consob. Companies not controlled by a shareholders' agreement where a single shareholder owns more than half of the ordinary shares. ** Companies neither controlled by a shareholders' agreement nor majority controlled, included in one of the following categories: i) a single shareholder holds at least 30% of the ordinary shares; ii) a single shareholder holds a stake a) at least equal to 20% of the ordinary shares and b) higher than half of the sum of the ordinary shares held by all the major shareholders (i.e. by shareholders with more than 2%). *** Classified in one of the following categories: i) listed companies, not controlled by a single shareholder, on whose capital exists a shareholders' agreement regarding at least 20% of the ordinary shares; ii) listed companies controlled by an unlisted company, not controlled by a single shareholder, on whose capital exists a shareholders' agreement regarding the majority of the capital.*

The slight reduction found in the participation of the first shareholder during the 1998-2014 period did not, in fact, produce the concomitant development of forms of share ownership, as much as it instead favored recourse to forms of "coalition" control, legitimized by the tool of shareholders' agreements and forms of de facto control.

Control by means of shareholders' agreements has, in fact, increased in terms of share of market capitalization from 8.3% to 9,6%, while the forms of de facto control have decreased 4 percentage points (from 40.8% to 36.8%). The presence of phenomena of cross-ownership and interlocking *directorates* have further contributed to guarantee the stability of control.

It is also opportune to highlight how shareholders who control corporations – both through direct share ownership and through methods of "indirect" control – are prevalently members of the same family or members of families linked by kinship ties (Tiscini and Di Donato, 2007).

Banks hold minimum quotas of risk capital of companies in the industrial and service sectors, confirming that our banking sector intervenes almost exclusively as a provider of loan capital. Even less significant is the participation of institutional investors in the risk capital of listed companies

Therefore, the methods and tools used to carry out controls have changed while the level of contestability of Italian listed and unlisted companies remains modest and the widespread phenomenon of the so-called family controlled listed and unlisted company model seems to be prevalent.

This study proposes to analyse the possible changes which occur during turnaround processes, in shareholders, in individual shareholders and in the shares they own.

The underlying hypothesis is that such changes are caused by the need to contribute new financial resources necessary for the activation of the recovery plan, as well as the will to communicate a new set of values and a renewed corporate culture, aimed at creating the conditions for a return to competitiveness.

Recapitalization could be carried out by the controlling shareholders themselves, if they exist and they wish to do so, or, if they are not willing to contribute the necessary new capital, it could be put in place by new individuals. Of these, the participation of institutional investors can be of particular importance. Banks themselves are generally considered only providers of credit capital and, therefore, rarely involved in the formulation of corporate strategies, however, on the occasion of turnaround processes following states of crisis, they could convert their credits into risk capital, in this way influencing the management of the turnaround.

With particular reference to Italian listed companies, great attention has been paid to the changes made, during the turnaround process, to the percentage of equity possessed by the controlling shareholders, highlighting the cases in which that control can be traced back, directly or indirectly, to the same family group. In this sense, consideration was made of the results of studies carried out in our country, according to which the financial restructuring entailed in turnaround processes is often followed by a reduction of the ownership concentration and the loss of control by the family group (Belcredi, 1997; Caprio, 2001; Bava and Devalle, 2009).

This fragmentation of ownership was, however, temporary in many cases since the return to conditions of profitability led to a renewed interest by investors in acquiring significant amounts of capital.

In light of the considerations made, in this study the two alternative hypotheses were analyzed:

Hypotheses 1. During the turnaround process there was a reduction of the percentage of participation by the controlling shareholder or by the reference family group in favor of new shareholders; of these, primarily the role of institutional investors and banks was investigated.

or,

Hypotheses 2. During the turnaround process there was an increase in the percentage of participation by the controlling shareholder or by the reference family group.

3. METHODOLOGY

3.1 Selecting the sample

This study analyses Italian listed companies over the period 1998-2014. A sample of declining firms that turned around was selected, and on wich the next phase of data collection was carried out. Such data were instrumental to verify the hypotheses defined above, about the relationship of ownership structure and turnaround processes. The identification of the sample has, of course, required the preliminary development of a framework of the phenomenon under assessment.

3.2 Definition of the concept of crisis and turnaround in relevant literature

The definition of corporate turnaround relevant for this analysis has required a preliminary survey of criteria and indicators most frequently used in empirical investigations.

It should be remembered that the literature, both national and international, has provided a large number of contributions and empirical research on the subject over the years, giving the concept of turnaround multiple definitions (e.g., Bastia, 1996; Bertoli, 2000; Black et al., 1999; Booth, 1983; Candelo, 2005; Coda, 1982; Danovi and Quagli, 2012; Gilardoni and Danovi, 2000; Golinelli, 2004; Grinyer et at., 1988; Guatri, 1985 (a,b), 1986; Hofer, 1980; Hoffman, 1989; Izzo, 1996; Pandit, 2000; Pant, 1991; Robbins and Pearce, 1992; Schendel and Patton, 1976; Schendel et al., 1976; Sicca, 1996; Slatter, 1984).

Various definitions of the turnaround are possible, that include the whole range that goes from mere "survival" with a performance at a level acceptable to the firm's stakeholders, up to the definition according to which there is a corporate turnaround only if the firm achieves a sustainable competitive advantage. Therefore, also in operational terms and in relation to the performance measures used, it can be a substantial "variability" in tracing the concept of turnaround (Pandit, 2000, Sicca e Izzo,1995).

Unlike the more recent and wider definition of the turnaround phenomenon - which does not necessarily result in situations of decline and is instead a process of radical change aimed at an increase in value - the classical approach sees the turnaround as a strategy of containment and response to a corporate crisis. In other words, from a more narrow sense, this would generate a turnaround only if the company comes out of the crisis obtaining a sustainable competitive advantage. In this conceptualization the centrality of the definition and measurement of performance is self-evident. Definition and measurement which may have originated from the comparison of past and current performances (performance declined), but also from a comparison between current and future performances, or from a comparison between corporate performance and a benchmark (inadequate performance).

It follows that the identification of the turnaround cannot be separated from the preliminary definition of measures to detect the event in terms of decline and rise of corporate performance in a given period of time. Any definition of the phenomenon should provide: 1) a definition and measurement of performance; 2) a definition of a turnaround cycle

Studies on this topic define performance in terms of profitability, whereas empirical investigation are differentiated for the chosen indicator that in some cases consisted in nominal pre-tax profit (Bibeault, 1982; Schendel and al., 1976; Schendel, Patton e Riggs, 1976; Slatter, 1984), and in other cases in profitability accounting ratios such as ROI or ROA (Hambrick and Schecter, 1983; Mueller and Barker, 1997; O'Neill, 1986; Pant, 1991; Robbins and Pearce, 1992).

More recent literature (Lohrke et al., 2004; Pandit 2000) however, notes that an exclusive consideration of profitability can be misleading, given that very frequently the deterioration of this parameter occurs only in later times, prior to a loss of competitive advantage and that in declining performance contexts there is the tendency of manipulation of measure of profitability - "window dressing".

A certain number of studies used, however, multiple performance indicators. For example, while Robbins and Pearce (1992) used ROI and ROS simultaneously, Grinyer at al. (1990) use a comprehensive perspective adopting multiple criteria.

Other studies used human judgment to support the definition of good or poor performance resulting from balance sheet data (Pandit, 2000). Zimmermann (1989) requires a consensus among the stakeholders (investors, board members and managers) and Robbins and Pearce (1992) emphasize the need for certification by one of the executives that the turnaround has taken place. This approach has the obvious advantage of using the judgment of expert witnesses, and this is important given the heterogeneity of cases of turnaround.

With reference to the timing, the literature shows that an effective recovery strategy rests on the assumption that a so-called "turnaround cycle" has occurred, that is a period, extended in most cases from the four to eight years, characterized by the succession of two consecutive stages of which, the first of decline and the second of recovery.

Despite the broad survey of the methods used, the models adopted until now have not always proved to be fully effective in the investigated phenomena. To overcome this problem in empirical research characterized by higher degrees of reliability, the sample has been selected by integrating the use of profitability indicators with other tools, such as subjective evaluations and comparison to a benchmark

3.3. The framework

Considering the results of previous empirical investigations, in this study it was decided to use the ROI as a key indicator of performance, then integrated from the support offered by appropriate information in order to demonstrate the effective implementation of the turnaround. The data for the definition of the sample were then collected using:

- the electronic database and analysis software AIDA containing master data and financial statements of Italian companies;

- annual reports, balance sheets, minutes of the ordinary and extraordinary sessions;
- sections of corporate sites dedicated to the Investor Relations and to the Corporate Governance;
- the electronic database Factiva, which renders more than 25,000 sources of information of 159 countries available.

As mentioned above, the sample was made taking into account companies that over the period 1998-2014 started and completed a successful turnaround. In particular, the sample was obtained by considering all the manufacturing companies listed on the Milan Stock Exchange which, during the period analyzed, were involved in a strong crisis, followed by a successful turnaround process.

We identified turnaround firms that had been subjected to a performance cycle consisting of (Mueller and Barker, 1997):

a) three consecutive years of declining ROI;

b) during this 3-year decline, the firm's performance had to become low enough to give one year of negative ROI;

c) the 3 decline years were followed by 3 years of increasing ROI, with one year of positive ROI.

Applying the above method of selection of the sample, a total of 51 companies were selected. In order to verify that the companies identified had effectively started a turnaround process in this period, analysis of documentation (financial statements, management reports, minutes of the ordinary and extraordinary, sites dedicated to Investor Relations and Corporate Governance) and analysis of other sources of information (articles in professional journals, information on listed companies, corporate studies, presentations to the financial community) were conduct. From these 51 companies, all those for which it was not possible to obtain the data needed, or for which the effective recovery of the crisis has not been ascertained by the scrutiny of Factiva and other information sources (company websites, report / dossier drawn up by institutional investors) were eliminated. In total, 15 companies were eliminated, resulting in a final sample size of 36 companies.

In order to understand what are the contributions that the turnaround processes obtained from the evolution of governance arrangements from the empirical data collected were processed using a method based on techniques of descriptive statistics.

The use of this methodology allows a representation of the overall structure of ownership of companies in the sample. This representation is an instrumental and preparatory phase before proceeding to the knowledge of the phenomenon and therefore the testing of hypotheses advanced in the work.

3.4. Variables and measures

The goals of research and the reference sample defined, the next step was to identify and define the variables of ownership structure which can affect corporate performance and therefore allow the recovery of companies in crisis. In particular related to the ownership structure of the companies eight distinct variables were identified and measured in each year of the turnaround cycle:

VAR-1) voting shares held by the main shareholder (the percentage of voting stock held by the main shareholder);

VAR-2) voting shares held by the top three shareholders (the sum of the percentage of voting stock held by the three largest shareholders);

VAR-3) voting shares held by top five shareholders (the sum of the percentage of voting stock held by the five largest shareholders);

VAR-4) participation in the capital of the company by the institutional investors (total percentage of voting stock held by institutional investors such as mutual funds, vulture funds, etc.);

VAR-5) equity participation by banks (total percentage of voting stock held by the banking industry);

VAR-6) presence of blockholders (dummy variable yes = 1 no = 0);

VAR-7) capital held by blockholders (percentage of voting stock held by a shareholder or coalition of such control as defined in the preceding paragraph);

VAR-8) existence of a corporate control which refers to a family (dummy variable yes = 1 no = 0).

4. RESULTS. ANALYSES AND DISCUSSION

In recent decades, the issue of ownership and the mechanisms that influence changes in it have assumed considerable criticality in the systems of all advanced countries. In the Italian context, in particular, the importance of this issue is reinforced by the characteristics that can be found in the ownership of our companies, which underlie the historical background of various phenomena, such as the economic crisis and the decline of the state ownership model, the fragility of the instruments for the exercise of control, the inefficacy and inefficiency of the solutions used to resolve the conflict of interests between controlling individuals and minority shareholders, the negligible presence of financial operators and institutional investors in enterprise capital.

In the aforementioned context and on the basis of the data gathered from the sources stated in the research methodology, in this part of the study, an analysis was made of the changes in the ownership concentration and in the composition of ownership in Italian companies characterized by turnaround processes during the time period considered, so as to verify the two alternative hypotheses, previously formulated.

First we analysed the average number of shares owned, during the turnaround cycle, respectively by the first, by the first three and by the first five shareholders in the companies examined.

In this analysis, it can be seen that the level of concentration in the companies analyzed, in relationship to the three aforementioned subject profiles, increases over the six years considered. In particular, for the average shares owned by the first shareholder there is an increase of approximately 16%, for the entire period considered, with an uneven growth trend. In fact, the average number of shares, 39.80% in the first year, remains substantially stable for the three-year period of decline and then increases in the second and third year of the growth period, lining up around values just under 47%. The progress found in the sphere of the aforementioned observations is confirmed by an analysis of the dynamics related to the first three and five shareholders. With reference to the shares held by institutional investors, the data show unequivocally their extremely limited weight in the company capital examined. In fact, the shares, during the period considered, lie in a range that varies from the 7.86% of the first year to the 6.90% of the last year, with peaks during the central years (II and III years of the phase of decline and I year of the growth phase). The reasons for this limited interest, in terms of limited ownership of risk capital by institutional investors, may be linked to the low level of protection for those shareholders, obviously in the minority, both in the fiscal year and the impossibility of being able to effect a rapid and efficient exit, considering the narrowness of our stock market in terms of opportunities for investment. Other reasons for that disinterest are related to the characteristics of our listed companies, such as the persistence – despite the continual legislative and regulatory innovations in the last twenty year and the higher level of openness to global competition – of control structures which tend to be concentrated individually, or in family groups, poor sectorial diversification, and chronic operative and financial undersizing.

Table 3. Descriptive statistics for main explanatory variables

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*
Panel A: Largest shareholder						
Mean	39,80	39,69	40,80	39,25	45,58	46,26
Median	39,75	39,64	40,75	39,20	45,52	45,56
Standard deviation	18,06	17,99	18,73	17,82	19,84	18,60
Range	85,13	82,04	87,53	73,00	88,50	83,45
Minimum	11,37	11,42	5,94	5,94	3,43	8,48
Maximum	96,50	93,46	93,46	78,94	91,93	91,93
Panel B: Top three shareholders						
Mean	56,80	56,92	55,69	55,15	60,34	61,18
Median	56,80	56,92	55,69	55,15	60,34	61,18
Standard deviation	12,99	12,34	15,32	14,91	15,26	14,98
Range	64,15	59,57	81,37	77,08	82,10	78,47
Minimum	32,35	33,89	12,10	11,59	9,83	13,46
Maximum	96,50	93,46	93,46	88,67	91,93	91,93
Panel C: Top five shareholders						
Mean	63,08	64,05	62,93	62,44	66,76	66,50
Median	63,08	64,05	62,93	62,44	66,76	66,50
Standard deviation	11,87	10,43	14,72	14,77	13,76	14,47
Range	58,40	51,61	77,90	79,04	77,53	81,73
Minimum	38,10	41,85	15,57	16,15	14,40	13,46
Maximum	96,50	93,46	93,46	95,19	91,93	95,19
Panel D: Institutional investors'						
Mean	7,86	9,12	8,95	8,78	8,00	6,91
Median	7,86	9,12	8,95	8,78	8,00	6,91
Standard deviation	13,25	13,65	10,95	8,00	9,42	7,73
Range	78,71	78,78	60,35	44,26	55,98	44,20
Minimum	0,00	0,00	0,00	0,00	0,00	0,00
Maximum	78,71	78,78	60,35	44,26	55,98	44,20
Panel E: Banks						
Mean	1,28	1,35	0,84	0,60	1,58	0,78
Median	1,28	1,35	0,42	0,00	0,79	0,39
Standard deviation	2,21	2,20	1,60	1,21	3,92	1,38
Range	11,83	11,83	8,12	5,30	23,29	5,66
Minimum	0,00	0,00	0,00	0,00	0,00	0,00
Maximum	11,83	11,83	8,12	5,30	23,29	5,66

Additionally, to record the ways in which ownership contributes to the wielding of control, three variables were identified and recorded: a) the existence or not of a controlling individual with a number of shares superior to 30% of the voting capital; b) the fluid assets or lack thereof in the hands of the controlling individual with the majority of voting rights; c) the traceability of control to a single person, to members of a family or to branches of the same family.

In relationship to the presence of a controlling shareholder, with a number of shares superior to 30% of the voting capital, the existence of the same shareholder is found for the first two fiscal years in almost 80% of the companies examined. This presence is reduced in the following fiscal year and rises again in the fourth fiscal year, up to the initial levels in the fifth and sixth fiscal years.

Additionally, it is important to note that in all of the years considered, in over half of the companies examined, there is a controlling shareholder with a capital voting share greater than 50%.

These results, as much as those previously found, show the low level of separation between ownership and control, the widespread use of groups and the use of shareholders' agreements among the shareholders in the companies analyzed.

Finally, we verified the level of recourse to the model of family control, or rather, where there were cases in which the control was wielded jointly (with or without the majority of voting rights) by individuals linked by familial relationships or with non-controlling individuals, or in which the control was wielded by a single person who did not have the majority, but had family ties to some non-controlling individuals (Barca et al., 2004). In general, it was observed that the use of this control model, although in decreasing measure, was still very high in the turnaround companies examined.

In conclusion, our research on the companies examined, characterized by turnaround processes in the 1998-2014 period, revealed two phenomena: the permanence of high ownership concentration in the hands of few individuals; and the marginal role played by banks and institutional investors in listed companies. However, as hypothesized, considering the chief characteristics of company ownership in our country, in particular the mechanisms of allocation and reallocation of capital, we did not find a radical change in ownership for the turnaround companies considered. The level of concentration of ownership found in the companies studied was very high for the entire period considered. Actually, the average share of ordinary capital held by the first shareholder increased from 39.80% in the first year to 46.25% in the last year of observation. This tendency was confirmed by the increase that can also be found in the sum of shares held by the first three shareholders who went from 50.72% to 54.62% and the sum held, on average, by the first five shareholders who increased from 56.32% to 59.37%.

In particular, observing the variations that took place from year to year, it can be seen that the uneven increase in shareholder concentration found during the period of observation can be attributed to two phenomena: a) a slight disengagement of the major shareholders in the central years of the whole turnaround process and following re-entry, even with higher commitments in terms of risk capital held, following financial restructuring processes, in particular recapitalization operations; b) entry of institutional investors in the risk capital during the phase of crisis and the following disengagement at the end of the company restructuring process.

However, it is important to underline that, during the turnaround process, in only two of the companies examined was the so-called capital pulverization phenomenon observed.

It was additionally found that the observed weight of banks and institutional investors in corporate stock remained substantially unchanged over the course of the period considered (Ferri and Pesaresi, 1996).

Under the profile of the type of control in the companies analyzed, even in the presence of a discrete variability in the identity of the first five shareholders, the data highlight two phenomena: a) the prevalence of strongly centralized control models, where the majority, even if de facto, could be traced back to a few individuals who held the risk capital; b) the prevalence in the sphere of these models of individuals that could be traced back to members or branches of the same family.

Definitively, the results seem to suggest that ownership in no way influenced the turnaround process of these companies, since, from the comparison of the pre and post turnaround situations, it is possible to find substantially similar ownership configurations.

In particular, in the sample observed, at the end of the turnaround process the following points are evident: a) a high concentration of ownership in the hands of few shareholders; b) the presence of two public companies, in comparison with no companies with a broad shareholder base at the beginning of the process examined; c) the use by major shareholders, considering majority possession to be relative and not absolute, of mechanisms which aim to reduce investment to the minimum necessary to exercise control of the companies.

5. LIMITATIONS AND CONCLUDING REMARKS

The purpose of this paper is to investigate the relationship between ownership structures and turnaround processes in Italian capitalistic model in the period 1998-2014. In fact aside from the analysis of single cases (Cirio, Parmalat, Fiat, etc.), no specific empirical studies seem to have been carried out on the relationship between the single aspects of governance and turnarounds/crises in Italian companies, in which the reference model is that of the family company, even if they are listed companies. This study does not extend the results obtained by studies carried out in different contexts tout court to Italian companies, but it considers the peculiarities of Italian capitalist model, characterized by a concentrated ownership structure, in which the main conflict of interest becomes that between controlling shareholders and minority shareholders.

The major difficulties encountered in this investigation were concerned with the definition of the turnaround process and, consequently, with the identification of a representative framework of the phenomenon. In fact, as we have seen, literature does not define unambiguously "a turnaround situation" and the empirical evidence itself offers turnaround cases that differ in type, main causes and intervention models. On the basis of the framework designed, we were conservative in the sample selection to ensure that only true turnaround firms were identified. One trade-off for this conservativeness, in fact, is the relatively modest statistical power with a sample size, small in numbers, of 36 companies.

In the light of this, it was considered it appropriate in this first step of the research, testing hypotheses through the application of descriptive statistics, in the perspective of a further extension of the research design.

In fact, in order to further verify the hypotheses, we are extending the framework based on indications provided by literature. In particular, further research is undertaking a comparison of the ownership structures characteristics of declining firms that turned around, versus matched declining firms that continue to fail.

Study designs using matched-pair sample of turnaround and nonturnaround firms have been used in past research, also to compare the TMT and board characteristics of this companies (Mueller, and Barker, 1997; Schendel and Patton, 1976). This comparison could be useful in order to single out the evolution of ownership structures that are effectively connected to the turnaround process, distinguish them from changes that occurred anyway, regardless of the success of the process itself.

Finally, given the limitations of the first step of the research carried out, mainly related to the small scale of the sample, a verification of the assumption made through an extended framework becomes compulsory.

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